PNM RESOURCES INC
Form 10-Q
August 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

Commission File Number	Name of Registrants, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
001-32462	PNM Resources, Inc. (A New Mexico Corporation) 414 Silver Ave. SW Albuquerque, New Mexico 87102-3289 (505) 241-2700	85-0468296
001-06986	Public Service Company of New Mexico (A New Mexico Corporation) 414 Silver Ave. SW Albuquerque, New Mexico 87102-3289 (505) 241-2700	85-0019030
002-97230	Texas-New Mexico Power Company (A Texas Corporation) 577 N. Garden Ridge Blvd. Lewisville, Texas 75067 (972) 420-4189	75-0204070

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

PNM Resources, Inc. ("PNMR")	YES ü	NO
Public Service Company of New Mexico ("PNM")	YES ü	NO
Texas-New Mexico Power Company ("TNMP")	YES	NO ü

(NOTE: As a voluntary filer, not subject to the filing requirements, TNMP filed all reports under Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months.)

Indicate by check mark whether each registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

PNMR YES ü NO
PNM YES ü NO
TNMP YES ü NO

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Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller Reporting Company
PNMR	ü			
PNM			ü	
TNMP			ü	

Indicate by check mark whether any of the registrants is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO ü

As of August 5, 2016, 79,653,624 shares of common stock, no par value per share, of PNMR were outstanding.

The total number of shares of common stock of PNM outstanding as of August 5, 2016 was 39,117,799 all held by PNMR (and none held by non-affiliates).

The total number of shares of common stock of TNMP outstanding as of August 5, 2016 was 6,358 all held indirectly by PNMR (and none held by non-affiliates).

PNM AND TNMP MEET THE CONDITIONS SET FORTH IN GENERAL INSTRUCTIONS (H) (1) (a) AND (b) OF FORM 10-Q AND ARE THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION (H) (2).

This combined Form 10-Q is separately filed by PNMR, PNM, and TNMP. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrants. When this Form 10-Q is incorporated by reference into any filing with the SEC made by PNMR, PNM, or TNMP, as a registrant, the portions of this Form 10-Q that relate to each other registrant are not incorporated by reference therein.

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PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES

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GLOSSARY

Definitions:

Afton	Afton Generating Station
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
AMI	Advanced Metering Infrastructure
AMS	Advanced Meter System
AOCI	Accumulated Other Comprehensive Income
APS	Arizona Public Service Company, the operator and a co-owner of PVNGS and Four Corners
ASU	Accounting Standards Update
BACT	Best Available Control Technology
BART	Best Available Retrofit Technology
BDT	Balanced Draft Technology
BHP	BHP Billiton, Ltd
Board	Board of Directors of PNMR
BTMU	The Bank of Tokyo-Mitsubishi UFJ, Ltd.
BTMU Term Loan Agreement	NM Capital’s $125.0 Million Unsecured Term Loan
BTU	British Thermal Unit
CAA	Clean Air Act
CCB	Coal Combustion Byproducts
CCN	Certificate of Convenience and Necessity
CO_2	Carbon Dioxide
CSA	Coal Supply Agreement
CTC	Competition Transition Charge
DC Circuit	United States Court of Appeals for the District of Columbia Circuit
Delta	Delta-Person Generating Station, now known as Rio Bravo
DOE	United States Department of Energy
DOI	United States Department of Interior
EGU	Electric Generating Unit
EIP	Eastern Interconnection Project
EIS	Environmental Impact Study
EPA	United States Environmental Protection Agency
ESA	Endangered Species Act
Exchange Act	Securities Exchange Act of 1934
Farmington	The City of Farmington, New Mexico
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIP	Federal Implementation Plan
Four Corners	Four Corners Power Plant
FPPAC	Fuel and Purchased Power Adjustment Clause
FTY	Future Test Year
GAAP	Generally Accepted Accounting Principles in the United States of America
GHG	Greenhouse Gas Emissions
GWh	Gigawatt hours
IRP	Integrated Resource Plan

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IRS	Internal Revenue Service
ISFSI	Independent Spent Fuel Storage Installation
KW	Kilowatt
KWh	Kilowatt Hour
La Luz	La Luz Generating Station
LIBOR	London Interbank Offered Rate
Lightning Dock Geothermal	Lightning Dock geothermal power facility, also known as the Dale Burgett Geothermal Plant
Lordsburg	Lordsburg Generating Station
Luna	Luna Energy Facility
MD&A	Management’s Discussion and Analysis of Financial Condition and Results of Operations
MMBTU	Million BTUs
Moody’s	Moody’s Investor Services, Inc.
MW	Megawatt
MWh	Megawatt Hour
NAAQS	National Ambient Air Quality Standards
Navajo Acts	Navajo Nation Air Pollution Prevention and Control Act, Navajo Nation Safe Drinking Water Act, and Navajo Nation Pesticide Act
NDT	Nuclear Decommissioning Trusts for PVNGS
NEC	Navopache Electric Cooperative, Inc.
NEE	New Energy Economy
NEPA	National Environmental Policy Act
NERC	North American Electric Reliability Corporation
New Mexico Wind	New Mexico Wind Energy Center
NM Capital	NM Capital Utility Corporation, an unregulated wholly-owned subsidiary of PNMR
NM Supreme Court	New Mexico Supreme Court
NMED	New Mexico Environment Department
NMIEC	New Mexico Industrial Energy Consumers Inc.
NMMMD	The Mining and Minerals Division of the New Mexico Energy, Minerals and Natural Resources Department
NMPRC	New Mexico Public Regulation Commission
NOx	Nitrogen Oxides
NOPR	Notice of Proposed Rulemaking
NPDES	National Pollutant Discharge Elimination System
NRC	United States Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NSR	New Source Review
OCI	Other Comprehensive Income
OPEB	Other Post Employment Benefits
OSM	United States Office of Surface Mining Reclamation and Enforcement
PCRBs	Pollution Control Revenue Bonds
PNM	Public Service Company of New Mexico and Subsidiaries, a wholly-owned subsidiary of PNMR
PNM 2016 Term Loan Agreement	PNM’s $175.0 Million Unsecured Term Loan
PNM Multi-draw Term Loan	PNM’s $125.0 Million Unsecured Multi-draw Term Loan Facility
	PNM’s $50.0 Million Unsecured Revolving Credit Facility

PNM New Mexico Credit
Facility

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PNM Revolving Credit Facility	PNM's $400.0 Million Unsecured Revolving Credit Facility
PNMR	PNM Resources, Inc. and Subsidiaries
PNMR 2015 Term Loan Agreement	PNMR's $150.0 Million Three-Year Unsecured Term Loan
PNMR Development	PNMR Development and Management Company, an unregulated wholly-owned subsidiary of PNMR
PNMR Revolving Credit Facility	PNMR's $300.0 Million Unsecured Revolving Credit Facility
PNMR Term Loan Agreement	PNMR's $150.0 Million One-Year Unsecured Term Loan
PPA	Power Purchase Agreement
PSA	Power Sales Agreement
PSD	Prevention of Significant Deterioration
PUCT	Public Utility Commission of Texas
PV	Photovoltaic
PVNGS	Palo Verde Nuclear Generating Station
RA	San Juan Project Restructuring Agreement
RCRA	Resource Conservation and Recovery Act
RCT	Reasonable Cost Threshold
REA	New Mexico's Renewable Energy Act of 2004
REC	Renewable Energy Certificates
Red Mesa Wind	Red Mesa Wind Energy Center
REP	Retail Electricity Provider
Rio Bravo	Rio Bravo Generating Station, formerly known as Delta
RMC	Risk Management Committee
ROE	Return on Equity
RPS	Renewable Energy Portfolio Standard
S&P	Standard and Poor's Ratings Services
SCR	Selective Catalytic Reduction
SEC	United States Securities and Exchange Commission
SIP	State Implementation Plan
SJCC	San Juan Coal Company
SJGS	San Juan Generating Station
SNCR	Selective Non-Catalytic Reduction
SO_2	Sulfur Dioxide
TECA	Texas Electric Choice Act
Tenth Circuit	United States Court of Appeals for the Tenth Circuit
TNMP	Texas-New Mexico Power Company and Subsidiaries, a wholly-owned subsidiary of TNP
TNMP 2015 Bond Purchase Agreement	TNMP's $60.0 Million First Mortgage Bonds
TNMP Revolving Credit Facility	TNMP's $75.0 Million Secured Revolving Credit Facility
TNP	TNP Enterprises, Inc. and Subsidiaries, a wholly-owned subsidiary of PNMR
Tucson	Tucson Electric Power Company
UG-CSA	Underground Coal Sales Agreement
US Supreme Court	Supreme Court of the United States
Valencia	Valencia Energy Facility
VaR	Value at Risk

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VIE	Variable Interest Entity
WACC	Weighted Average Cost of Capital
WEG	WildEarth Guardians
Westmoreland	Westmoreland Coal Company
Westmoreland Loan	$125.0 Million of funding provided by NM Capital to WSJ
WSJ	Westmoreland San Juan, LLC, an indirect wholly-owned subsidiary of Westmoreland

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands, except per share amounts)			
Electric Operating Revenues	$315,391	$352,887	$626,352	$685,755
Operating Expenses:				
Cost of energy	81,363	114,038	173,732	229,683
Administrative and general	45,160	39,928	92,270	83,787
Energy production costs	37,881	44,790	80,567	87,459
Regulatory disallowances and restructuring costs	—	1,529	774	1,744
Depreciation and amortization	50,955	46,049	100,784	91,510
Transmission and distribution costs	17,315	16,868	33,909	33,354
Taxes other than income taxes	17,895	17,271	37,987	36,234
Total operating expenses	250,569	280,473	520,023	563,771
Operating income	64,822	72,414	106,329	121,984
Other Income and Deductions:				
Interest income	10,194	1,941	13,815	3,691
Gains on available-for-sale securities	4,631	5,556	10,849	9,580
Other income	4,265	5,717	8,530	10,679
Other (deductions)	(4,105)	(3,707)	(7,104)	(7,370)
Net other income and deductions	14,985	9,507	26,090	16,580
Interest Charges	33,221	28,913	64,712	59,186
Earnings before Income Taxes	46,586	53,008	67,707	79,378
Income Taxes	15,634	17,353	22,790	25,870
Net Earnings	30,952	35,655	44,917	53,508
(Earnings) Attributable to Valencia Non-controlling Interest	(3,744)	(3,850)	(7,031)	(7,231)
Preferred Stock Dividend Requirements of Subsidiary	(132)	(132)	(264)	(264)
Net Earnings Attributable to PNMR	$27,076	$31,673	$37,622	$46,013
Net Earnings Attributable to PNMR per Common Share:				
Basic	$0.34	$0.40	$0.47	$0.58
Diluted	$0.34	$0.40	$0.47	$0.57
Dividends Declared per Common Share	$0.22	$0.20	$0.44	$0.40

The accompanying notes, as they relate to PNMR, are an integral part of these financial statements.

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PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Net Earnings	$30,952	$35,655	$44,917	$53,508
Other Comprehensive Income (Loss):				
Unrealized Gains on Available-for-Sale Securities:				
Unrealized holding gains (losses) arising during the period, net of income tax (expense) benefit of $2,791, $266, $661 and $(2,413)	(4,362)	(413)	(1,034)	3,744
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of $(2,404), $3,278, $1,970 and $4,913	3,757	(5,087)	(3,079)	(7,624)
Pension Liability Adjustment:				
Reclassification adjustment for amortization of experience losses recognized as net periodic benefit cost, net of income tax expense (benefit) of $(537), $(583), $(1,074) and $(1,166)	839	905	1,678	1,810
Fair Value Adjustment for Cash Flow Hedges:				
Change in fair market value, net of income tax (expense) benefit of $178, $0, $681 and $0	(279)	—	(1,065)	—
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of $(88), $0, $(145) and $0	137	—	226	—
Total Other Comprehensive Income (Loss)	92	(4,595)	(3,274)	(2,070)
Comprehensive Income	31,044	31,060	41,643	51,438
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(3,744)	(3,850)	(7,031)	(7,231)
Preferred Stock Dividend Requirements of Subsidiary	(132)	(132)	(264)	(264)
Comprehensive Income Attributable to PNMR	$27,168	$27,078	$34,348	$43,943

The accompanying notes, as they relate to PNMR, are an integral part of these financial statements.

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PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	$44,917	$53,508
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	116,785	108,891
Deferred income tax expense	22,869	26,675
Net unrealized (gains) losses on commodity derivatives	5,219	6,127
Realized (gains) on available-for-sale securities	(10,849)	(9,580)
Stock based compensation expense	3,543	2,761
Regulatory disallowances and restructuring costs	774	1,744
Other, net	(207)	(1,926)
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	3,770	(20,899)
Materials, supplies, and fuel stock	(1,382)	(8,285)
Other current assets	(27,342)	16,342
Other assets	885	8,062
Accounts payable	(3,984)	(20,777)
Accrued interest and taxes	(4,283)	(4,380)
Other current liabilities	(23,255)	(10,195)
Other liabilities	(5,419)	(38,394)
Net cash flows from operating activities	122,041	109,674
Cash Flows From Investing Activities:		
Additions to utility and non-utility plant	(378,574)	(232,964)
Proceeds from sales of available-for-sale securities	194,014	94,522
Purchases of available-for-sale securities	(195,619)	(94,905)
Return of principal on PVNGS lessor notes	8,547	14,188
Westmoreland Loan	(122,250)	—
Other, net	167	2,694
Net cash flows from investing activities	(493,715)	(216,465)

The accompanying notes, as they relate to PNMR, are an integral part of these financial statements.

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PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
	(In thousands)	
Cash Flows From Financing Activities:		
Revolving credit facilities borrowings, net	150,800	82,000
Long-term borrowings	357,500	214,300
Repayment of long-term debt	(126,156)	(158,066)
Proceeds from stock option exercise	6,569	7,347
Awards of common stock	(14,367)	(18,814)
Dividends paid	(35,312)	(32,125)
Valencia's transactions with its owner	(7,394)	(7,614)
Other, net	(1,077)	(2,107)
Net cash flows from financing activities	330,563	84,921
Change in Cash and Cash Equivalents	(41,111)	(21,870)
Cash and Cash Equivalents at Beginning of Period	46,051	28,274
Cash and Cash Equivalents at End of Period	$4,940	$6,404
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$56,397	$56,309
Income taxes paid (refunded), net	$850	$(1,231)
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	$25,488	$743

The accompanying notes, as they relate to PNMR, are an integral part of these financial statements.

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PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2016	December 31, 2015
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 4,940	$ 46,051
Accounts receivable, net of allowance for uncollectible accounts of $1,407 and $1,397	75,598	98,699
Unbilled revenues	69,834	52,012
Other receivables	17,066	28,590
Current portion of Westmoreland Loan	48,175	—
Materials, supplies, and fuel stock	68,769	67,386
Regulatory assets	10,180	1,070
Commodity derivative instruments	4,053	3,813
Income taxes receivable	6,773	5,845
Other current assets	103,483	82,104
Total current assets	408,871	385,570
Other Property and Investments:		
Long-term portion of Westmoreland Loan	75,820	—
Available-for-sale securities	264,669	259,042
Other investments	440	604
Non-utility property	3,404	3,404
Total other property and investments	344,333	263,050
Utility Plant:		
Plant in service, held for future use, and to be abandoned	6,774,773	6,307,261
Less accumulated depreciation and amortization	2,279,853	2,058,772
	4,494,920	4,248,489
Construction work in progress	211,919	204,766
Nuclear fuel, net of accumulated amortization	83,391	82,117

of $44,139 and $44,455		
Net utility plant	4,790,230	4,535,372
Deferred Charges and Other Assets:		
Regulatory assets	464,291	470,664
Goodwill	278,297	278,297
Commodity derivative instruments	1,332	2,622
Other deferred charges	73,102	73,753
Total deferred charges and other assets	817,022	825,336
	$ 6,360,456	$ 6,009,328

The accompanying notes, as they relate to PNMR, are an integral part of these financial statements.

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PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2016	December 31, 2015
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$401,400	$ 250,600
Current installments of long-term debt	106,910	124,979
Accounts payable	70,948	100,419
Customer deposits	11,783	12,216
Accrued interest and taxes	54,951	58,306
Regulatory liabilities	3,852	15,591
Commodity derivative instruments	4,746	1,859
Dividends declared	132	17,656
Other current liabilities	48,194	59,494
Total current liabilities	702,916	641,120
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	2,217,114	1,966,969
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	905,439	877,393
Regulatory liabilities	466,312	467,413
Asset retirement obligations	116,716	111,895
Accrued pension liability and postretirement benefit cost	66,506	73,097
Commodity derivative instruments	1,588	—
Other deferred credits	133,925	133,692
Total deferred credits and other liabilities	1,690,486	1,663,490
Total liabilities	4,610,516	4,271,579
Commitments and Contingencies (See Note 11)		
Cumulative Preferred Stock of Subsidiary		
without mandatory redemption requirements ($100 stated value; 10,000,000 shares authorized; issued and outstanding 115,293 shares)	11,529	11,529
Equity:		
PNMR common stockholders' equity:		
Common stock (no par value; 120,000,000 shares authorized; issued and outstanding 79,653,624 shares)	1,162,195	1,166,465
Accumulated other comprehensive income (loss), net of income taxes	(74,706)	(71,432)
Retained earnings	579,878	559,780
Total PNMR common stockholders' equity	1,667,367	1,654,813
Non-controlling interest in Valencia	71,044	71,407
Total equity	1,738,411	1,726,220
	$6,360,456	$ 6,009,328

The accompanying notes, as they relate to PNMR, are an integral part of these financial statements.

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PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

	Attributable to PNMR					
	Common Stock	AOCI	Retained Earnings	Total PNMR Common Stockholders' Equity	Non-controlling Interest in Valencia	Total Equity
	(In thousands)					
Balance at December 31, 2015	$1,166,465	$(71,432)	$559,780	$1,654,813	$71,407	$1,726,220
Net earnings before subsidiary preferred stock dividends	—	—	37,886	37,886	7,031	44,917
Total other comprehensive income (loss)	—	(3,274)	—	(3,274)	—	(3,274)
Subsidiary preferred stock dividends	—	—	(264)	(264)	—	(264)
Dividends declared on common stock	—	—	(17,524)	(17,524)	—	(17,524)
Proceeds from stock option exercise	6,569	—	—	6,569	—	6,569
Awards of common stock	(14,367)	—	—	(14,367)	—	(14,367)
Excess tax (shortfall) from stock-based payment arrangements	(15)	—	—	(15)	—	(15)
Stock based compensation expense	3,543	—	—	3,543	—	3,543
Valencia's transactions with its owner	—	—	—	—	(7,394)	(7,394)
Balance at June 30, 2016	$1,162,195	$(74,706)	$579,878	$1,667,367	$71,044	$1,738,411

The accompanying notes, as they relate to PNMR, are an integral part of these financial statements.

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PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Electric Operating Revenues	$233,346	$275,450	$468,952	$537,390
Operating Expenses:				
Cost of energy	61,367	95,728	133,811	193,594
Administrative and general	39,152	36,956	81,181	76,524
Energy production costs	37,881	44,790	80,567	87,459
Regulatory disallowances and restructuring costs	—	1,529	774	1,744
Depreciation and amortization	32,602	29,002	64,466	57,405
Transmission and distribution costs	10,241	10,272	20,557	21,040
Taxes other than income taxes	10,343	9,994	22,540	20,790
Total operating expenses	191,586	228,271	403,896	458,556
Operating income	41,760	47,179	65,056	78,834
Other Income and Deductions:				
Interest income	5,518	1,946	7,040	3,717
Gains on available-for-sale securities	4,631	5,556	10,849	9,580
Other income	2,953	4,901	6,339	8,292
Other (deductions)	(3,202)	(3,011)	(4,863)	(4,615)
Net other income and deductions	9,900	9,392	19,365	16,974
Interest Charges	22,690	19,681	44,281	39,640
Earnings before Income Taxes	28,970	36,890	40,140	56,168
Income Taxes	9,177	11,527	12,788	17,302
Net Earnings	19,793	25,363	27,352	38,866
(Earnings) Attributable to Valencia Non-controlling Interest	(3,744)	(3,850)	(7,031)	(7,231)
Net Earnings Attributable to PNM	16,049	21,513	20,321	31,635
Preferred Stock Dividends Requirements	(132)	(132)	(264)	(264)
Net Earnings Available for PNM Common Stock	$15,917	$21,381	$20,057	$31,371

The accompanying notes, as they relate to PNM, are an integral part of these financial statements.

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PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Net Earnings	$19,793	$25,363	$27,352	$38,866
Other Comprehensive Income (Loss):				
Unrealized Gains on Available-for-Sale Securities:				
Unrealized holding gains (losses) arising during the period, net of income tax (expense) benefit of $2,791, $266, $661 and $(2,413)	(4,362)	(413)	(1,034)	3,744
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of $(2,404), $3,278, $1,970 and $4,913	3,757	(5,087)	(3,079)	(7,624)
Pension Liability Adjustment:				
Reclassification adjustment for amortization of experience losses recognized as net periodic benefit cost, net of income tax (benefit) of $(537), $(583), $(1,074) and $(1,166)	839	905	1,678	1,810
Total Other Comprehensive Income (Loss)	234	(4,595)	(2,435)	(2,070)
Comprehensive Income	20,027	20,768	24,917	36,796
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(3,744)	(3,850)	(7,031)	(7,231)
Comprehensive Income Attributable to PNM	$16,283	$16,918	$17,886	$29,565

The accompanying notes, as they relate to PNM, are an integral part of these financial statements.

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PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	$27,352	$38,866
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	80,688	73,701
Deferred income tax expense	13,180	18,464
Net unrealized (gains) losses on commodity derivatives	5,219	6,127
Realized (gains) on available-for-sale securities	(10,849)	(9,580)
Regulatory disallowances and restructuring costs	774	1,744
Other, net	(221)	(2,958)
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	8,572	(15,283)
Materials, supplies, and fuel stock	(4,924)	(7,860)
Other current assets	(18,964)	15,882
Other assets	6,582	7,568
Accounts payable	822	(21,315)
Accrued interest and taxes	736	412
Other current liabilities	(15,511)	(3,259)
Other liabilities	(6,871)	(34,729)
Net cash flows from operating activities	86,585	67,780
Cash Flows From Investing Activities:		
Utility plant additions	(302,721)	(172,937)
Proceeds from sales of available-for-sale securities	194,014	94,522
Purchases of available-for-sale securities	(195,619)	(94,905)
Return of principal on PVNGS lessor notes	8,547	14,188
Other, net	167	2,859
Net cash flows from investing activities	(295,612)	(156,273)

The accompanying notes, as they relate to PNM, are an integral part of these financial statements.

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PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
	(In thousands)	
Cash Flows From Financing Activities:		
Revolving credit facilities borrowings, net	126,000	51,100
Long-term borrowings	175,000	64,300
Repayment of long-term debt	(125,000)	(39,300)
Equity contribution from parent	4,142	—
Valencia's transactions with its owner	(7,394)	(7,614)
Dividends paid	(4,406)	(264)
Other, net	(369)	(1,659)
Net cash flows from financing activities	167,973	66,563
Change in Cash and Cash Equivalents	(41,054)	(21,930)
Cash and Cash Equivalents at Beginning of Period	43,138	25,480
Cash and Cash Equivalents at End of Period	$2,084	$3,550
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$40,838	$36,977
Income taxes paid (refunded), net	$—	$(1,450)
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	$21,157	$(2,813)

The accompanying notes, as they relate to PNM, are an integral part of these financial statements.

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PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2016	December 31, 2015
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,084	$ 43,138
Accounts receivable, net of allowance for uncollectible accounts of $1,407 and $1,397	52,491	78,291
Unbilled revenues	58,360	42,641
Other receivables	14,953	24,725
Affiliate receivables	10,422	15,105
Materials, supplies, and fuel stock	65,402	60,477
Regulatory assets	3,421	—
Commodity derivative instruments	4,053	3,813
Income taxes receivable	14,970	14,577
Other current assets	96,625	74,990
Total current assets	322,781	357,757
Other Property and Investments:		
Available-for-sale securities	264,669	259,042
Other investments	202	366
Non-utility property	96	96
Total other property and investments	264,967	259,504
Utility Plant:		
Plant in service, held for future use, and to be abandoned	5,258,713	4,833,303
Less accumulated depreciation and amortization	1,765,392	1,569,549
	3,493,321	3,263,754
Construction work in progress	156,801	172,238
Nuclear fuel, net of accumulated amortization of $44,139 and $44,455	83,391	82,117
Net utility plant	3,733,513	3,518,109

Deferred Charges and Other Assets:				
Regulatory assets	334,871		342,910	
Goodwill	51,632		51,632	
Commodity derivative instruments	1,332		2,622	
Other deferred charges	66,385		66,810	
Total deferred charges and other assets	454,220		463,974	
	$	4,775,481	$	4,599,344

The accompanying notes, as they relate to PNM, are an integral part of these financial statements.

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PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2016	December 31, 2015
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt	$ 126,000	$ —
Current installments of long-term debt	56,814	124,979
Accounts payable	52,051	72,386
Affiliate payables	19,933	14,318
Customer deposits	11,783	12,216
Accrued interest and taxes	34,314	33,189
Regulatory liabilities	3,852	15,591
Commodity derivative instruments	4,746	1,859
Dividends declared	132	132
Other current liabilities	33,070	42,251
Total current liabilities	342,695	316,921
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	1,574,760	1,455,698
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	715,168	696,384
Regulatory liabilities	432,572	434,863
Asset retirement obligations	115,835	111,049
Accrued pension liability and postretirement benefit cost	59,980	66,285
Commodity derivative instruments	1,588	—
Other deferred credits	114,755	117,275
Total deferred credits and liabilities	1,439,898	1,425,856
Total liabilities	3,357,353	3,198,475
Commitments and Contingencies (See Note 11)		
Cumulative Preferred Stock		
without mandatory redemption requirements ($100 stated value; 10,000,000 shares authorized; issued and outstanding 115,293 shares)	11,529	11,529
Equity:		
PNM common stockholder's equity:		
Common stock (no par value; 40,000,000 shares authorized; issued and outstanding 39,117,799 shares)	1,240,918	1,236,776
Accumulated other comprehensive income (loss), net of income taxes	(73,911)	(71,476)
Retained earnings	168,548	152,633
Total PNM common stockholder's equity	1,335,555	1,317,933
Non-controlling interest in Valencia	71,044	71,407
Total equity	1,406,599	1,389,340
	$ 4,775,481	$ 4,599,344

The accompanying notes, as they relate to PNM, are an integral part of these financial statements.

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PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

	Attributable to PNM					
	Common Stock	AOCI	Retained Earnings	Total PNM Common Stockholder's Equity	Non-controlling Interest in Valencia	Total Equity
	(In thousands)					
Balance at December 31, 2015	$1,236,776	$(71,476)	$152,633	$1,317,933	$71,407	$1,389,340
Net earnings	—	—	20,321	20,321	7,031	27,352
Total other comprehensive income (loss)	—	(2,435)	—	(2,435)	—	(2,435)
Dividends declared on preferred stock	—	—	(264)	(264)	—	(264)
Equity contribution from parent	4,142	—	—	4,142	—	4,142
Dividends declared on common stock	—	—	(4,142)	(4,142)	—	(4,142)
Valencia's transactions with its owner	—	—	—	—	(7,394)	(7,394)
Balance at June 30, 2016	$1,240,918	$(73,911)	$168,548	$1,335,555	$71,044	$1,406,599

The accompanying notes, as they relate to PNM, are an integral part of these financial statements.

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TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Electric Operating Revenues	$82,045	$77,437	$157,400	$148,365
Operating Expenses:				
Cost of energy	19,996	18,310	39,921	36,089
Administrative and general	10,204	8,042	19,794	17,875
Depreciation and amortization	14,897	13,591	29,406	27,049
Transmission and distribution costs	7,074	6,596	13,352	12,314
Taxes other than income taxes	6,499	6,169	12,998	12,378
Total operating expenses	58,670	52,708	115,471	105,705
Operating income	23,375	24,729	41,929	42,660
Other Income and Deductions:				
Other income	1,031	792	1,624	2,332
Other (deductions)	(354)	1	(339)	(248)
Net other income and deductions	677	793	1,285	2,084
Interest Charges	7,473	6,856	14,841	13,781
Earnings before Income Taxes	16,579	18,666	28,373	30,963
Income Taxes	6,071	6,801	10,408	11,404
Net Earnings	$10,508	$11,865	$17,965	$19,559

The accompanying notes, as they relate to TNMP, are an integral part of these financial statements.

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TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	$17,965	$19,559
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	30,270	27,839
Deferred income tax expense	(22)	6,175
Other, net	14	(90)
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(4,802)	(5,616)
Materials and supplies	3,542	(425)
Other current assets	(6,941)	(1,264)
Other assets	(6,297)	68
Accounts payable	(2,986)	385
Accrued interest and taxes	5,275	(173)
Other current liabilities	1,279	2,530
Other liabilities	(6)	(4,132)
Net cash flows from operating activities	37,291	44,856
Cash Flows From Investing Activities:		
Utility plant additions	(59,795)	(50,256)
Net cash flows from investing activities	(59,795)	(50,256)
Cash Flow From Financing Activities:		
Revolving credit facilities borrowings (repayments), net	(29,000)	24,000
Short-term borrowings (repayments) – affiliate, net	(300)	(18,600)
Long-term borrowings	60,000	—
Dividends paid	(7,456)	—
Other, net	(740)	—
Net cash flows from financing activities	22,504	5,400
Change in Cash and Cash Equivalents	—	—
Cash and Cash Equivalents at Beginning of Period	1	1
Cash and Cash Equivalents at End of Period	$1	$1
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$13,118	$12,990
Income taxes paid (refunded), net	$850	$950
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	$2,681	$2,311

The accompanying notes, as they relate to TNMP, are an integral part of these financial statements.

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TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2016	December 31, 2015
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$1	$ 1
Accounts receivable	23,107	20,408
Unbilled revenues	11,474	9,371
Other receivables	896	811
Materials and supplies	3,367	6,909
Regulatory assets	6,759	1,070
Other current assets	2,205	1,053
Total current assets	47,809	39,623
Other Property and Investments:		
Other investments	238	238
Non-utility property	2,240	2,240
Total other property and investments	2,478	2,478
Utility Plant:		
Plant in service and plant held for future use	1,321,689	1,285,727
Less accumulated depreciation and amortization	425,862	406,516
	895,827	879,211
Construction work in progress	32,435	16,561
Net utility plant	928,262	895,772
Deferred Charges and Other Assets:		
Regulatory assets	129,420	127,754
Goodwill	226,665	226,665
Other deferred charges	4,891	4,847
Total deferred charges and other assets	360,976	359,266
	$1,339,525	$ 1,297,139

The accompanying notes, as they relate to TNMP, are an integral part of these financial statements.

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TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2016	December 31, 2015
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt	$30,000	$ 59,000
Short-term debt – affiliate	11,500	11,800
Accounts payable	10,338	16,006
Affiliate payables	3,568	3,681
Accrued interest and taxes	38,166	32,891
Other current liabilities	3,433	2,044
Total current liabilities	97,005	125,422
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	420,763	361,411
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	232,881	232,791
Regulatory liabilities	33,740	32,550
Asset retirement obligations	724	695
Accrued pension liability and postretirement benefit cost	6,526	6,812
Other deferred credits	3,997	4,078
Total deferred credits and other liabilities	277,868	276,926
Total liabilities	795,636	763,759
Commitments and Contingencies (See Note 11)		
Common Stockholder's Equity:		
Common stock ($10 par value; 12,000,000 shares authorized; issued and outstanding 6,358 shares)	64	64
Paid-in-capital	404,166	404,166
Retained earnings	139,659	129,150
Total common stockholder's equity	543,889	533,380
	$1,339,525	$ 1,297,139

The accompanying notes, as they relate to TNMP, are an integral part of these financial statements.

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TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN COMMON STOCKHOLDER'S EQUITY
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Total Common Stockholder's Equity
	(In thousands)			
Balance at December 31, 2015	$64	$404,166	$129,150	$ 533,380
Net earnings	—	—	17,965	17,965
Dividends declared on common stock	—	—	(7,456)	(7,456)
Balance at June 30, 2016	$64	$404,166	$139,659	$ 543,889

The accompanying notes, as they relate to TNMP, are an integral part of these financial statements.

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PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Significant Accounting Policies and Responsibility for Financial Statements

Financial Statement Preparation

In the opinion of management, the accompanying unaudited interim Condensed Consolidated Financial Statements reflect all normal and recurring accruals and adjustments that are necessary to present fairly the consolidated financial position at June 30, 2016 and December 31, 2015, the consolidated results of operations and comprehensive income for the three and six months ended June 30, 2016 and 2015, and cash flows for the six months ended June 30, 2016 and 2015. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could ultimately differ from those estimated. Weather causes the Company's results of operations to be seasonal in nature and the results of operations presented in the accompanying Condensed Consolidated Financial Statements are not necessarily representative of operations for an entire year.

The Notes to Condensed Consolidated Financial Statements include disclosures for PNMR, PNM, and TNMP. This report uses the term "Company" when discussing matters of common applicability to PNMR, PNM, and TNMP. Discussions regarding only PNMR, PNM, or TNMP are so indicated. Certain amounts in the 2015 Condensed Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2016 financial statement presentation.

These Condensed Consolidated Financial Statements are unaudited. Certain information and note disclosures normally included in the annual Consolidated Financial Statements have been condensed or omitted, as permitted under the applicable rules and regulations. Readers of these financial statements should refer to PNMR's, PNM's, and TNMP's audited Consolidated Financial Statements and Notes thereto that are included in their respective 2015 Annual Reports on Form 10-K.

GAAP defines subsequent events as events or transactions that occur after the balance sheet date, but before financial statements are issued or are available to be issued. Based on their nature, magnitude, and timing, certain subsequent events may be required to be reflected at the balance sheet date and/or required to be disclosed in the financial statements. The Company has evaluated subsequent events as required by GAAP.

Principles of Consolidation
The Condensed Consolidated Financial Statements of each of PNMR, PNM, and TNMP include their accounts and those of subsidiaries in which that entity owns a majority voting interest. PNM also consolidates Valencia (Note 5) and, through January 15, 2016, the PVNGS Capital Trust. PNM owns undivided interests in several jointly-owned power plants and records its pro-rata share of the assets, liabilities, and expenses for those plants. The agreements for the jointly-owned plants provide that if an owner were to default on its payment obligations, the non-defaulting owners would be responsible for their proportionate share of the obligations of the defaulting owner. In exchange, the non-defaulting owners would be entitled to their proportionate share of the generating capacity of the defaulting owner. There have been no such payment defaults under any of the agreements for the jointly-owned plants.

PNMR shared services' administrative and general expenses, which represent costs that are primarily driven by corporate level activities, are charged to the business segments. These services are billed at cost. Other significant intercompany transactions between PNMR, PNM, and TNMP include interest and income tax sharing payments, as well as equity transactions. All intercompany transactions and balances have been eliminated. See Note 14.

Dividends on Common Stock

Dividends on PNMR's common stock are declared by its Board. The timing of the declaration of dividends is dependent on the timing of meetings and other actions of the Board. This has historically resulted in dividends considered to be attributable to the second quarter of each year being declared through actions of the Board during the third quarter of the year. The Board declared dividends on common stock considered to be for the second quarter of $0.22 per share in July 2016 and $0.20 in July

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2015, which are reflected as being in the second quarter within “Dividends Declared per Common Share” on the PNMR Condensed Consolidated Statements of Earnings.

In the six-months ended June 30, 2016, PNMR made an equity contribution of $4.1 million to PNM. PNM and TNMP declared and paid cash dividends on common stock to PNMR of $4.1 million and $7.5 million in the six-months ended June 30, 2016. PNM and TNMP declared cash dividends on common stock to PNMR of $20.0 million and $7.7 million in June 2015 that were paid on July 1, 2015.

New Accounting Pronouncements

Information concerning recently issued accounting pronouncements that have not been adopted by the Company is presented below.

Accounting Standards Update 2014-09 – Revenue from Contracts with Customers (Topic 606)

In May 2014, the FASB issued ASU No. 2014-09. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. When it becomes effective, the new standard will replace most existing revenue recognition guidance in GAAP. In August 2015, the FASB issued a one-year deferral in the effective date. Since the issuance of ASU No. 2014-09, the FASB also has issued additional ASUs that clarify implementation guidance regarding principal versus agent considerations, licensing, and identifying performance obligations, as well as adding certain additional practical expedients. The Company must adopt ASU 2014-09 beginning on January 1, 2018. Early adoption would be permitted beginning January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has not yet selected a transition method although it is unlikely the Company would elect to early adopt the new standard. The Company is analyzing the impacts this new standard will have on its consolidated financial statements and related disclosures, but has not determined the effect of the standard on its financial reporting.

Accounting Standards Update 2014-15 – Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern

In August 2014, the FASB issued ASU No. 2014-15, which requires management to evaluate whether there is substantial doubt about a company’s ability to continue as a going concern in connection with the preparation of financial statements for each annual and interim reporting period. Disclosure requirements associated with management’s evaluation are also outlined in the new guidance. The new standard is effective for the Company for reporting periods ending after December 15, 2016, with early adoption permitted. The Company is analyzing the impacts of this new standard.

Accounting Standards Update 2016-01 – Financial Instruments (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU No. 2016-01, which makes targeted improvements to GAAP regarding financial instruments. The new standard eliminates the requirement to classify investments in equity securities with readily determinable fair values into trading or available-for-sale categories and will require those equity securities to be measured at fair value with changes in fair value recognized in net income rather than in OCI. Also, the new standard will revise certain presentation and disclosure requirements. Under the new standard, accounting for investments in debt securities remains essentially unchanged. The new standard will be effective for the Company beginning on January 1, 2018. Early adoption of the standard is permitted. The Company is in the process of analyzing the impacts of this new standard.

Accounting Standards Update 2016-02 – Leases (Topic 842)

In February 2016, the FASB issued ASU No. 2016-02, which will change how lessees account for leases. The ASU will require that a liability be recorded on the balance sheet for all leases based on the present value of future lease obligations. A corresponding right-of-use asset will also be recorded. Amortization of the lease obligation and the right-of-use asset for certain leases, primarily those currently classified as operating leases, will be on a straight-line basis, which is not expected to have a

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(Unaudited)

significant impact on the statements of earnings or cash flows, whereas other leases will be required to be accounted for as financing arrangements similar to the accounting treatment for capital leases under current GAAP. Also, the new standard will revise certain disclosure requirements. The new standard will be effective for the Company beginning on January 1, 2019. Early adoption of the standard is permitted. At adoption of the ASU, leases will be recognized and measured as of the earliest period presented using a modified retrospective approach. The Company is in the process of analyzing the impacts of this new standard.

Accounting Standards Update 2016-09 – Compensation – Stock Compensation (Topic 718)

In March 2016, the FASB issued ASU No. 2016-09. The ASU simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new standard is effective for the Company beginning on January 1, 2017. Early adoption is permitted in any interim or annual period. The Company is in the process of analyzing the impacts of this new standard.

Accounting Standards Update 2016-13 – Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13. The ASU changes the way entities recognize impairment of many financial assets, including accounts receivable and investments in debt securities, by requiring immediate recognition of estimated credit losses expected to occur over their remaining lives. The new standard is effective for the Company beginning on January 1, 2020. Early adoption is permitted beginning on January 1, 2019. The Company is in the process of analyzing the impacts of this new standard.

(2) Earnings Per Share

In accordance with GAAP, dual presentation of basic and diluted earnings per share is presented in the Condensed Consolidated Statements of Earnings of PNMR. Information regarding the computation of earnings per share is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands, except per share amounts)			
Net Earnings Attributable to PNMR	$27,076	$31,673	$37,622	$46,013
Average Number of Common Shares:				
Outstanding during period	79,654	79,654	79,654	79,654
Vested awards of restricted stock	97	99	101	105
Average Shares – Basic	79,751	79,753	79,755	79,759
Dilutive Effect of Common Stock Equivalents:				
Stock options and restricted stock	357	380	381	384

Average Shares – Diluted	80,108	80,133	80,136	80,143
Net Earnings Per Share of Common Stock:				
Basic	$0.34	$0.40	$0.47	$0.58
Diluted	$0.34	$0.40	$0.47	$0.57

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(3) Segment Information

The following segment presentation is based on the methodology that management uses for making operating decisions and assessing performance of its various business activities. A reconciliation of the segment presentation to the GAAP financial statements is provided.

PNM
PNM includes the retail electric utility operations of PNM that are subject to traditional rate regulation by the NMPRC. PNM provides integrated electricity services that include the generation, transmission, and distribution of electricity for retail electric customers in New Mexico. PNM also provides generation service to firm-requirements wholesale customers and sells electricity into the wholesale market, as well as providing transmission services to third parties. The sale of electricity into the wholesale market includes the optimization of PNM’s jurisdictional capacity, as well as the capacity from PVNGS Unit 3, which currently is not included in retail rates. FERC has jurisdiction over wholesale power and transmission rates.

TNMP
TNMP is an electric utility providing regulated transmission and distribution services in Texas under the TECA. TNMP’s operations are subject to traditional rate regulation by the PUCT.

Corporate and Other

The Corporate and Other segment includes PNMR holding company activities, primarily related to corporate level debt and PNMR Services Company. The activities of PNMR Development and NM Capital are also included in Corporate and Other.

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The following tables present summarized financial information for PNMR by segment. PNM and TNMP each operate in only one segment. Therefore, tabular segment information is not presented for PNM and TNMP.

PNMR SEGMENT INFORMATION

	PNM	TNMP	Corporate and Other	Consolidated
	(In thousands)			
Three Months Ended June 30, 2016				
Electric operating revenues	$233,346	$82,045	$—	$315,391
Cost of energy	61,367	19,996	—	81,363
Utility margin	171,979	62,049	—	234,028
Other operating expenses	97,617	23,777	(3,143)	118,251
Depreciation and amortization	32,602	14,897	3,456	50,955
Operating income (loss)	41,760	23,375	(313)	64,822
Interest income	5,518	—	4,676	10,194
Other income (deductions)	4,382	677	(268)	4,791
Net interest charges	(22,690)	(7,473)	(3,058)	(33,221)
Segment earnings before income taxes	28,970	16,579	1,037	46,586
Income taxes	9,177	6,071	386	15,634
Segment earnings	19,793	10,508	651	30,952
Valencia non-controlling interest	(3,744)	—	—	(3,744)
Subsidiary preferred stock dividends	(132)	—	—	(132)
Segment earnings attributable to PNMR	$15,917	$10,508	$651	$27,076
Six Months Ended June 30, 2016				
Electric operating revenues	$468,952	$157,400	$—	$626,352
Cost of energy	133,811	39,921	—	173,732
Utility margin	335,141	117,479	—	452,620
Other operating expenses	205,619	46,144	(6,256)	245,507
Depreciation and amortization	64,466	29,406	6,912	100,784
Operating income (loss)	65,056	41,929	(656)	106,329
Interest income	7,040	—	6,775	13,815
Other income (deductions)	12,325	1,285	(1,335)	12,275
Net interest charges	(44,281)	(14,841)	(5,590)	(64,712)
Segment earnings (loss) before income taxes	40,140	28,373	(806)	67,707
Income taxes (benefit)	12,788	10,408	(406)	22,790
Segment earnings (loss)	27,352	17,965	(400)	44,917
Valencia non-controlling interest	(7,031)	—	—	(7,031)
Subsidiary preferred stock dividends	(264)	—	—	(264)
Segment earnings (loss) attributable to PNMR	$20,057	$17,965	$(400)	$37,622

At June 30, 2016:

Total Assets	$4,775,481	$1,339,525	$245,450	$6,360,456
Goodwill	$51,632	$226,665	$—	$278,297

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	PNM	TNMP	Corporate and Other	Consolidated
	(In thousands)			
Three Months Ended June 30, 2015				
Electric operating revenues	$275,450	$77,437	$—	$352,887
Cost of energy	95,728	18,310	—	114,038
Utility margin	179,722	59,127	—	238,849
Other operating expenses	103,541	20,807	(3,962)	120,386
Depreciation and amortization	29,002	13,591	3,456	46,049
Operating income	47,179	24,729	506	72,414
Interest income	1,946	—	(5)	1,941
Other income (deductions)	7,446	793	(673)	7,566
Net interest charges	(19,681)	(6,856)	(2,376)	(28,913)
Segment earnings (loss) before income taxes	36,890	18,666	(2,548)	53,008
Income taxes (benefit)	11,527	6,801	(975)	17,353
Segment earnings (loss)	25,363	11,865	(1,573)	35,655
Valencia non-controlling interest	(3,850)	—	—	(3,850)
Subsidiary preferred stock dividends	(132)	—	—	(132)
Segment earnings (loss) attributable to PNMR	$21,381	$11,865	$(1,573)	$31,673
Six Months Ended June 30, 2015				
Electric operating revenues	$537,390	$148,365	$—	$685,755
Cost of energy	193,594	36,089	—	229,683
Utility margin	343,796	112,276	—	456,072
Other operating expenses	207,557	42,567	(7,546)	242,578
Depreciation and amortization	57,405	27,049	7,056	91,510
Operating income	78,834	42,660	490	121,984
Interest income	3,717	—	(26)	3,691
Other income (deductions)	13,257	2,084	(2,452)	12,889
Net interest charges	(39,640)	(13,781)	(5,765)	(59,186)
Segment earnings (loss) before income taxes	56,168	30,963	(7,753)	79,378
Income taxes (benefit)	17,302	11,404	(2,836)	25,870
Segment earnings (loss)	38,866	19,559	(4,917)	53,508
Valencia non-controlling interest	(7,231)	—	—	(7,231)
Subsidiary preferred stock dividends	(264)	—	—	(264)
Segment earnings (loss) attributable to PNMR	$31,371	$19,559	$(4,917)	$46,013
At June 30, 2015:				
Total Assets	$4,524,390	$1,258,285	$106,121	$5,888,796
Goodwill	$51,632	$226,665	$—	$278,297

At December 31, 2015, the Company adopted ASU 2015-03 – Interest – Imputation of Interest (Subtopic 835-30) and ASU 2015-17, Income Taxes (Topic 740) - Balance Sheet Classification of Deferred Taxes, which require that debt issuance costs be reflected as a direct reduction of the related debt liability, except for arrangements such as the Company's revolving credit facilities, and eliminated the requirement to classify deferred tax assets and liabilities as non-current or current. The Company applied the updates retrospectively to make all periods comparable. As a result, amounts previously reported as total assets at June 30, 2015 above have been reduced to reflect the reclassifications aggregating $38.2 million for PNMR, $19.9 million for PNM, and $10.6 million for TNMP.

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(4) Accumulated Other Comprehensive Income (Loss)

Information regarding accumulated other comprehensive income (loss) for the six months ended June 30, 2016 and 2015 is as follows:

	Accumulated Other Comprehensive Income (Loss)				
	PNM			PNMR	
	Unrealized Gains on Available-for-Sale Securities	Pension Liability Adjustment	Total	Fair Value Adjustment for Cash Flow Hedges	Total
	(In thousands)				
Balance at December 31, 2015	$17,346	$(88,822)	$(71,476)	$44	$(71,432)
Amounts reclassified from AOCI (pre-tax)	(5,049)	2,752	(2,297)	371	(1,926)
Income tax impact of amounts reclassified	1,970	(1,074)	896	(145)	751
Other OCI changes (pre-tax)	(1,695)	—	(1,695)	(1,746)	(3,441)
Income tax impact of other OCI changes	661	—	661	681	1,342
Net change after income taxes	(4,113)	1,678	(2,435)	(839)	(3,274)
Balance at June 30, 2016	$13,233	$(87,144)	$(73,911)	$(795)	$(74,706)
Balance at December 31, 2014	$28,008	$(89,763)	$(61,755)	$—	$(61,755)
Amounts reclassified from AOCI (pre-tax)	(12,537)	2,976	(9,561)	—	(9,561)
Income tax impact of amounts reclassified	4,913	(1,166)	3,747	—	3,747
Other OCI changes (pre-tax)	6,157	—	6,157	—	6,157
Income tax impact of other OCI changes	(2,413)	—	(2,413)	—	(2,413)
Net change after income taxes	(3,880)	1,810	(2,070)	—	(2,070)
Balance at June 30, 2015	$24,128	$(87,953)	$(63,825)	$—	$(63,825)

Pre-tax amounts reclassified from AOCI related to “Unrealized Gains on Available-for-Sale Securities” are included in “Gains on available-for-sale securities” in the Condensed Consolidated Statements of Earnings. Pre-tax amounts reclassified from AOCI related to “Pension Liability Adjustment” are reclassified to “Operating Expenses – Administrative and general” in the Condensed Consolidated Statements of Earnings. For the six months ended June 30, 2016 and 2015, 24.1% and 23.0% of the pension amounts reclassified were capitalized into construction work in process and 2.6% and 2.7% were capitalized into other accounts. Pre-tax amounts reclassified from AOCI related to “Fair Value Adjustment for Cash Flow Hedges” are reclassified to “Interest Charges” in the Condensed Consolidated Statements of Earnings. An insignificant amount was capitalized as AFUDC and capitalized interest. The income tax impacts of all amounts reclassified from AOCI are included in “Income Taxes” in the Condensed Consolidated Statements of Earnings.

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(5) Variable Interest Entities

GAAP determines how an enterprise evaluates and accounts for its involvement with variable interest entities, focusing primarily on whether the enterprise has the power to direct the activities that most significantly impact the economic performance of a variable interest entity (“VIE”). GAAP also requires continual reassessment of the primary beneficiary of a VIE. Additional information concerning PNM’s VIEs is contained in Note 9 of the Notes to Consolidated Financial Statements in the 2015 Annual Reports on Form 10-K.

Valencia

PNM has a PPA to purchase all of the electric capacity and energy from Valencia, a 158 MW natural gas-fired power plant near Belen, New Mexico, through May 2028. A third-party built, owns, and operates the facility while PNM is the sole purchaser of the electricity generated. PNM is obligated to pay fixed operations and maintenance and capacity charges in addition to variable operation and maintenance charges under this PPA. For the three and six months ended June 30, 2016, PNM paid $4.8 million and $9.6 million for fixed charges and $0.4 million and $0.6 million for variable charges. For the three and six months ended June 30, 2015, PNM paid $4.8 million and $9.6 million for fixed charges and $0.5 million and $0.6 million for variable charges. PNM does not have any other financial obligations related to Valencia. The assets of Valencia can only be used to satisfy obligations of Valencia and creditors of Valencia do not have any recourse against PNM’s assets. PNM has concluded that the third party entity that owns Valencia is a VIE and that PNM is the primary beneficiary of the entity under GAAP since PNM has the power to direct the activities that most significantly impact the economic performance of Valencia and will absorb the majority of the variability in the cash flows of the plant. As the primary beneficiary, PNM consolidates Valencia in its financial statements. The assets and liabilities of Valencia set forth below are immaterial to PNM and, therefore, not shown separately on the Condensed Consolidated Balance Sheets. The owner’s equity and net income of Valencia are considered attributable to non-controlling interest.

Summarized financial information for Valencia is as follows:

Results of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Operating revenues	$5,248	$5,251	$10,185	$10,155
Operating expenses	(1,504)	(1,401)	(3,154)	(2,924)
Earnings attributable to non-controlling interest	$3,744	$3,850	$7,031	$7,231

Financial Position

	June 30, 2016	December 31, 2015
	(In thousands)	
Current assets	$3,413	$ 2,588

Net property, plant, and equipment	68,365	69,784
Total assets	71,778	72,372
Current liabilities	734	965
Owners' equity – non-controlling interest	$71,044	$ 71,407

During the term of the PPA, PNM has the option to purchase and own up to 50% of the plant or the VIE. The PPA specifies that the purchase price would be the greater of (i) 50% of book value reduced by related indebtedness or (ii) 50% of fair market value. On October 8, 2013, PNM notified the owner of Valencia that PNM may exercise the option to purchase 50% of the plant.

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As provided in the PPA, an appraisal process was initiated since the parties failed to reach agreement on fair market value within 60 days. Under the PPA, results of the appraisal process established the purchase price after which PNM was to determine in its sole discretion whether or not to exercise its option to purchase the 50% interest. The PPA also provides that the purchase price may be adjusted to reflect the period between the determination of the purchase price and the closing. The appraisal process determined the purchase price as of October 8, 2013 to be $85.0 million, prior to any adjustment to reflect the period through the closing date. Approval of the NMPRC and FERC would be required, which process could take up to 15 months. On May 30, 2014, after evaluating its alternatives with respect to Valencia, PNM notified the owner of Valencia that PNM intended to purchase 50% of the plant, subject to certain conditions. PNM’s conditions include: agreeing on the purchase price, adjusted to reflect the period between October 8, 2013 and the closing; approval of the NMPRC, including specified ratemaking treatment, and FERC; approval of the Board and PNM’s board of directors; receipt of other necessary approvals and consents; and other customary closing conditions. PNM received a letter dated June 30, 2014 from the owner of Valencia suggesting that the conditions set forth in PNM’s notification raise issues under the PPA. The owner of Valencia submitted a counter-proposal to PNM in April 2015 and the parties are continuing to have periodic discussions. PNM cannot predict if it will reach agreement with the owner of Valencia, if required regulatory and other approvals will be received, or if the purchase will be completed.

PVNGS Leases

PNM leases interests in Units 1 and 2 of PVNGS under arrangements, which initially were scheduled to expire on January 15, 2015 for the four Unit 1 leases and January 15, 2016 for the four Unit 2 leases. At January 15, 2015, the four Unit 1 leases were extended. At January 15, 2016, one of the Unit 2 leases was extended and PNM exercised its fair market value options to purchase the assets underlying the other three Unit 2 leases. See Note 7 of the Notes to Consolidated Financial Statements in the 2015 Annual Reports on Form 10-K and Note 6 for additional information regarding the leases, including PNM’s actions regarding the renewal and purchase options.

Each of the lease agreements is with a different trust whose beneficial owner is an institutional investor. PNM is not the legal or tax owner of the leased assets. The beneficial owners of the trusts possess all of the voting control and pecuniary interest in the trusts. PNM is only obligated to make payments to the trusts for the scheduled semi-annual lease payments and other than as discussed in Note 6, PNM has no other financial obligations or commitments to the trusts or the beneficial owners although PNM is responsible for all decommissioning obligations related to its entire interest in PVNGS both during and after termination of the leases. Creditors of the trusts have no recourse to PNM’s assets other than with respect to the contractual lease payments. PNM has no additional rights to the assets of the trusts other than the use of the leased assets. PNM has no assets or liabilities recorded on its Condensed Consolidated Balance Sheets related to the trusts other than accrued lease payments of $8.3 million at June 30, 2016 and $18.4 million at December 31, 2015, which are included in other current liabilities on the Condensed Consolidated Balance Sheets.

Prior to their exercise or expiration, the fixed rate renewal options were considered to be variable interests in the trusts and resulted in the trusts being considered VIEs under GAAP. PNM evaluated the PVNGS lease arrangements, including actions taken with respect to the renewal and purchase options, and concluded that it did not have the power to direct the activities that most significantly impacted the economic performance of the trusts and, therefore, was not the primary beneficiary of the trusts under GAAP. Upon execution of documents establishing terms of the asset purchases or lease extensions, PNM's variable interest in the trusts ceased to exist.

Westmoreland San Juan LLC ("WSJ") and SJCC

As discussed in the subheading Coal Supply in Note 11, PNM purchases coal for SJGS from SJCC under a coal supply agreement ("CSA"). That section includes information on the purchase of SJCC by WSJ on January 31, 2016, as well as a $125.0 million loan (the "Westmoreland Loan") from NM Capital, a subsidiary of PNMR, to WSJ, which loan provided substantially all of the funds required for the SJCC purchase, and the issuance of a $40.0 million letter of credit under the PNMR Revolving Credit Facility to support the issuance of reclamation bonds required in order for SJCC to mine coal to be supplied to SJGS. The Westmoreland Loan and the letter of credit result in PNMR being considered to have a variable interest in WSJ, including its subsidiary, SJCC, since PNMR and NM Capital could be subject to loss in the event WSJ were to default under the Westmoreland Loan and/or performance under the letter of credit was required. Principal payments under the Westmoreland Loan began on August 1, 2016 and are required quarterly thereafter. Interest is also paid quarterly beginning on May 1, 2016.

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At June 30, 2016, the amount outstanding under the Westmoreland Loan was $125.0 million, which is reflected on the Condensed Consolidated Balance Sheet net of unamortized fees. In addition, interest receivable of $1.6 million is included in Other Receivables. On August 1, 2016, NM Capital received a $15.0 million principal payment, along with accrued interest, from WSJ, reducing the amount outstanding under the Westmoreland Loan to $110.0 million. In August 2016, the $40.0 million letter of credit support was reduced to $30.3 million. However, the Westmoreland Loan requires that all cash flows of WSJ, in excess of normal operating expenses, capital additions, and operating reserves, be utilized for principal and interest payments under the loan until it is fully repaid. In addition, the Westmoreland Loan is secured by the assets of and the equity interests in SJCC. In the event of a default by WSJ, NM Capital would have the ability to take over the mining operations. In such event, NM Capital would likely engage a third-party mining company to operate SJCC so that operations of the mine are not disrupted. Since the acquisition of SJCC by WSJ for approximately $125.0 million is a recently negotiated, arms-length transaction between Westmoreland and BHP, the amount should approximate the fair value of SJCC. Therefore, if WSJ were to default, NM Capital should be able to acquire assets of approximately the value of the Westmoreland Loan without a significant loss. Furthermore, PNMR considers the possibility of loss under the letter of credit to be remote since the purpose of posting the bonds is to provide assurance that SJCC performs the required reclamation of the mine site in accordance with applicable regulations and all reclamation costs are reimbursable under the CSA. Also, much of the mine reclamation activities will not be performed for many years in the future, including after the expiration of the CSA and the final maturity of the Westmoreland Loan. In addition, each of the SJGS participants has established, and funds, a trust to meet its future reclamation obligations.

Both WSJ and SJCC are considered to be VIEs. PNMR's analysis of these arrangements concluded that Westmoreland, as the parent of WSJ, has the ability to direct the SJCC mining operations, which is the factor that most significantly impacts the economic performance of WSJ and SJCC. NM Capital's rights under the Westmoreland Loan are the typical protective rights of a lender, but do not give NM Capital any oversight over mining operations unless there is a default under the loan. Other than PNM being able to ensure that coal is supplied in adequate quantities and of sufficient quality to provide the fuel necessary to operate SJGS in a normal manner, the mining operations are solely under the control of Westmoreland and its subsidiaries, including developing mining plans, hiring of personnel, and incurring operating and maintenance expenses. Neither PNMR nor PNM has any ability to direct or influence the mining operation. Therefore, PNM's involvement through the CSA is a protective right rather than a participating right and Westmoreland has the power to direct the activities that most significantly impact the economic performance of the SJCC. The CSA requires SJCC to deliver coal required to fuel SJGS in exchange for payment of a set price per ton, which is escalated over time for inflation. If SJCC is able to mine more efficiently than anticipated, its economic performance will be improved. Conversely, if SJCC cannot mine as efficiently as anticipated, its economic performance will be negatively impacted. Accordingly, PNMR believes Westmoreland, and not PNMR, is the primary beneficiary of WSJ and, therefore, WSJ and SJCC are not consolidated by either PNMR or PNM. The amounts outstanding under the Westmoreland Loan and the letter of credit support constitute PNMR's maximum exposure to loss from the VIEs.

(6) Lease Commitments

The Company leases office buildings, vehicles, and other equipment under operating leases. In addition, PNM leases interests in Units 1 and 2 of PVNGS and, through April 1, 2015, leased an interest in the EIP transmission line. All of the Company's leases are currently accounted for as operating leases. See Note 1. Additional information concerning the Company's lease commitments is contained in Note 7 of the Notes to Consolidated Financial Statements in the 2015 Annual Reports on Form 10-K, including PNM's actions with regard to renewal and purchase options under the PVNGS leases.

The PVNGS leases were scheduled to expire on January 15, 2015 for the four Unit 1 leases and January 15, 2016 for the four Unit 2 leases. The four Unit 1 leases have been extended to expire on January 15, 2023 and one of the Unit 2 leases has been extended to expire on January 15, 2024. For the other three PVNGS Unit 2 leases, PNM exercised its fair market value options to purchase the assets underlying those leases on the expiration date of the original leases. On January 15, 2016, PNM paid $78.1 million to the lessor under one lease for 31.25 MW of the entitlement from PVNGS Unit 2 and $85.2 million to the lessors under the other two leases for 32.76 MW of the entitlement from PVNGS Unit 2.

PNM is exposed to losses under the PVNGS lease arrangements upon the occurrence of certain events that PNM does not consider to be reasonably likely to occur. Under certain circumstances (for example, the NRC issuing specified violation orders with respect to PVNGS or the occurrence of specified nuclear events), PNM would be required to make specified payments to the

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lessors, and take title to the leased interests. If such an event had occurred as of June 30, 2016, amounts due to the lessors under the circumstances described above would be up to $179.1 million, payable on July 15, 2016 in addition to the scheduled lease payments due on July 15, 2016.

At March 31, 2015, PNM owned 60% of the EIP and leased the other 40%, under a lease that expired on April 1, 2015. PNM purchased the leased capacity at fair market value, which the parties agreed was $7.7 million, on April 1, 2015.

(7) Fair Value of Derivative and Other Financial Instruments

Additional information concerning the Company's energy related derivative contracts and other financial instruments is contained in Note 8 of the Notes to Consolidated Financial Statements in the 2015 Annual Reports on Form 10-K.

Fair value is defined under GAAP as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value is based on current market quotes as available and is supplemented by modeling techniques and assumptions made by the Company to the extent quoted market prices or volatilities are not available. External pricing input availability for commodity derivatives varies based on commodity location, market liquidity, and term of the agreement. Valuations of derivative assets and liabilities take into account nonperformance risk including the effect of counterparties' and the Company's credit risk. The Company regularly assesses the validity and availability of pricing data for its derivative transactions. Although the Company uses its best judgment in estimating fair values, there are inherent limitations in any estimation technique.

Energy Related Derivative Contracts

Overview

The primary objective for the use of derivative instruments, including energy contracts, options, and futures, is to manage price risk associated with forecasted purchases of energy and fuel used to generate electricity, as well as managing anticipated generation capacity in excess of forecasted demand from existing customers. PNM's energy related derivative contracts manage commodity risk. PNM is required to meet the demand and energy needs of its retail and firm-requirements wholesale customers. PNM is exposed to market risk for its share of PVNGS Unit 3 and the needs of its firm-requirements wholesale customers not covered under a FPPAC. However, as discussed below, PNM has hedging arrangements for the output of PVNGS Unit 3 through December 31, 2017, at which time PVNGS Unit 3 will be included as a jurisdictional resource to serve New Mexico retail customers. PNM's operations are managed primarily through a net asset-backed strategy, whereby PNM's aggregate net open forward contract position is covered by its forecasted excess generation capabilities or market purchases. PNM could be exposed to market risk if its generation capabilities were to be disrupted or if its load requirements were to be greater than anticipated. If all or a portion of load requirements were required to be covered as a result of such unexpected situations, commitments would have to be met through market purchases.
Commodity Risk

Marketing and procurement of energy often involve market risks associated with managing energy commodities and establishing open positions in the energy markets, primarily on a short-term basis. PNM routinely enters into various derivative instruments such as forward contracts, option agreements, and price basis swap agreements to economically hedge price and volume risk on power commitments and fuel requirements and to minimize the effect of market fluctuations in wholesale portfolios. PNM monitors the market risk of its commodity contracts using VaR calculations to maintain total exposure within management-prescribed limits in accordance with approved risk and credit policies.

Accounting for Derivatives

Under derivative accounting and related rules for energy contracts, the Company accounts for its various derivative instruments for the purchase and sale of energy based on the Company’s intent. During the six months ended June 30, 2016 and the year ended December 31, 2015, the Company was not hedging its exposure to the variability in future cash flows from commodity derivatives through designated cash flows hedges. The contracts recorded at fair value that do not qualify or are not designated for cash flow hedge accounting are classified as economic hedges. Economic hedges are defined as derivative instruments, including

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long-term power agreements, used to economically hedge generation assets, purchased power and fuel costs, and customer load requirements. Changes in the fair value of economic hedges are reflected in results of operations and are classified between operating revenues and cost of energy according to the intent of the hedge. The Company has no trading transactions.

Commodity Derivatives

Commodity derivative instruments that are recorded at fair value, all of which are accounted for as economic hedges, are summarized as follows:

	Economic Hedges	
	June 30, 2016	December 31, 2015
PNMR and PNM	(In thousands)	
Current assets	$4,053	$ 3,813
Deferred charges	1,332	2,622
	5,385	6,435
Current liabilities	(4,746)	(1,859)
Long-term liabilities	(1,588)	—
	(6,334)	(1,859)
Net	$(949)	$ 4,576

Included in the above table are $2.8 million of current assets and $1.3 million of deferred charges at June 30, 2016 and $3.0 million of current assets and $2.6 million of deferred charges at December 31, 2015 related to contracts for the sale of energy from PVNGS Unit 3 through 2017 at market price plus a premium. Certain of PNM's commodity derivative instruments in the above table are subject to master netting agreements whereby assets and liabilities could be offset in the settlement process. The Company does not offset fair value, cash collateral, and accrued payable or receivable amounts recognized for derivative instruments under master netting arrangements and the above table reflects the gross amounts of assets and liabilities. The amounts that could be offset under master netting agreements were immaterial at June 30, 2016 and December 31, 2015.

At June 30, 2016 and December 31, 2015, PNMR and PNM had no amounts recognized for the legal right to reclaim cash collateral. However, at June 30, 2016 and December 31, 2015, amounts posted as cash collateral under margin arrangements were $2.6 million and $2.7 million for both PNMR and PNM. At June 30, 2016 and December 31, 2015, obligations to return cash collateral were $0.1 million and $0.1 million for both PNMR and PNM. Cash collateral amounts are included in other current assets and other current liabilities on the Condensed Consolidated Balance Sheets.

PNM has a NMPRC approved hedging plan to manage fuel and purchased power costs related to customers covered by its FPPAC. The table above includes less than $0.1 million of current assets, $0.1 million of current liabilities, and less than $0.1 million of long-term liabilities at June 30, 2016 and $0.4 million of current assets and $0.2 million of current liabilities at December 31, 2015 related to this plan. The offsets to these amounts are recorded as regulatory assets and liabilities on the Condensed Consolidated Balance Sheets.

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The following table presents the effect of mark-to-market commodity derivative instruments on earnings, excluding income tax effects. Commodity derivatives had no impact on OCI for the periods presented.

	Economic Hedges			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
PNMR and PNM	(In thousands)			
Electric operating revenues	$(4,123)	$1,003	$(1,439)	$531
Cost of energy	(967)	(99)	(1,112)	(149)
Total gain (loss)	$(5,090)	$904	$(2,551)	$382

Commodity contract volume positions are presented in MMBTU for gas related contracts and in MWh for power related contracts. The table below presents PNMR's and PNM's net buy (sell) volume positions:

	Economic Hedges	
	MMBTU	MWh
PNMR and PNM		
June 30, 2016	2,615,000	(3,590,045)
December 31, 2015	577,481	(3,405,843)

In connection with managing its commodity risks, the Company enters into master agreements with certain counterparties. If the Company is in a net liability position under an agreement, some agreements provide that the counterparties can request collateral from the Company if the Company's credit rating is downgraded; other agreements provide that the counterparty may request collateral to provide it with "adequate assurance" that the Company will perform; and others have no provision for collateral.

The table below presents information about the Company's contingent requirements to provide collateral under commodity contracts having an objectively determinable collateral provision that are in net liability positions and are not fully collateralized with cash. Contractual Liability represents commodity derivative contracts recorded at fair value on the balance sheet, determined on an individual contract basis without offsetting amounts for individual contracts that are in an asset position and could be offset under master netting agreements with the same counterparty. The table only reflects cash collateral that has been posted under the existing contracts and does not reflect letters of credit under the PNM Revolving Credit Facility that have been issued as collateral. Net Exposure is the net contractual liability for all contracts, including those designated as normal purchases and normal sales, offset by existing cash collateral and by any offsets available under master netting agreements, including both asset and liability positions.

Contingent Feature – Credit Rating Downgrade	Contractual Liability	Existing Cash Collateral	Net Exposure
	(In thousands)		
PNMR and PNM			
June 30, 2016	$—	$ —	$ —
December 31, 2015	$839	$ —	$ 839

Sale of Power from PVNGS Unit 3

Because PNM's 134 MW share of Unit 3 at PVNGS is not currently included in retail rates, that unit's power is being sold in the wholesale market. As of June 30, 2016, PNM had contracted to sell 100% of PVNGS Unit 3 output through 2017, at market price plus a premium. Through hedging arrangements that are accounted for as economic hedges, PNM has established fixed rates for substantially all of the sales through 2017, which average approximately $26 per MWh in 2016 and $29 per MWh in 2017.

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Non-Derivative Financial Instruments

The carrying amounts reflected on the Condensed Consolidated Balance Sheets approximate fair value for cash, receivables, and payables due to the short period of maturity. Available-for-sale securities are carried at fair value. Available-for-sale securities for PNMR and PNM consist of PNM assets held in the NDT for its share of decommissioning costs of PVNGS and a trust for PNM's share of post-term reclamation costs related to the coal mines serving SJGS (Note 11). At June 30, 2016 and December 31, 2015, the fair value of available-for-sale securities included $254.4 million and $249.1 million for the NDT and $10.3 million and $9.9 million for the mine reclamation trust. The fair value and gross unrealized gains of investments in available-for-sale securities are presented in the following table.

	June 30, 2016		December 31, 2015	
	Unrealized Gains	Fair Value	Unrealized Gains	Fair Value
PNMR and PNM		(In thousands)		
Cash and cash equivalents	$—	$3,535	$—	$10,700
Equity securities:				
Domestic value	7,517	61,672	11,610	44,505
Domestic growth	4,977	45,484	11,163	61,078
International and other	1,937	26,413	1,569	27,961
Fixed income securities:				
U.S. Government	1,293	38,263	178	27,880
Municipals	3,843	56,078	3,672	58,576
Corporate and other	2,421	33,224	628	28,342
	$21,988	$264,669	$28,820	$259,042

The proceeds and gross realized gains and losses on the disposition of available-for-sale securities for PNMR and PNM are shown in the following table. Realized gains and losses are determined by specific identification of costs of securities sold. Gross realized losses shown below exclude the change in realized impairment losses of $(0.7) million and $0.9 million for the three and six months ended June 30, 2016 and $(1.2) million and $(0.8) million for the three and six months ended June 30, 2015.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(In thousands)			
Proceeds from sales	$69,115	$62,670	$194,014	$94,522
Gross realized gains	$9,531	$8,329	$20,247	$13,465
Gross realized (losses)	$(4,233)	$(1,578)	$(10,349)	$(3,119)

Held-to-maturity securities are those investments in debt securities that the Company has the ability and intent to hold until maturity. At June 30, 2016, held-to-maturity securities consist of the Westmoreland Loan.

The Company has no available-for-sale or held-to-maturity securities for which carrying value exceeds fair value. There are no impairments considered to be “other than temporary” that are included in AOCI and not recognized in earnings.

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At June 30, 2016, the available-for-sale and held-to-maturity debt securities had the following final maturities:

	Fair Value	
	Available-for-Sale	Held-to-Maturity
	PNMR and PNM	PNMR
	(In thousands)	
Within 1 year	$2,370	$ —
After 1 year through 5 years	39,510	134,889
After 5 years through 10 years	21,671	—
After 10 years through 15 years	9,784	—
After 15 years through 20 years	10,028	—
After 20 years	44,202	—
	$127,565	$ 134,889

Fair Value Disclosures

The Company determines the fair values of its derivative and other financial instruments based on the hierarchy established in GAAP, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Level 3 inputs used in determining fair values for the Company consist of internal valuation models. The Company records any transfers between fair value hierarchy levels as of the end of each calendar quarter. There were no transfers between levels during the six months ended June 30, 2016 and the year ended December 31, 2015.

For available-for-sale securities, Level 2 fair values are provided by the trustee utilizing a pricing service. The pricing provider predominantly uses the market approach using bid side market value based upon a hierarchy of information for specific securities or securities with similar characteristics. For commodity derivatives, Level 2 fair values are determined based on market observable inputs, which are validated using multiple broker quotes, including forward price, volatility, and interest rate curves to establish expectations of future prices. Credit valuation adjustments are made for estimated credit losses based on the overall exposure to each counterparty. For the Company’s long-term debt, Level 2 fair values are provided by an external pricing service. The pricing service primarily utilizes quoted prices for similar debt in active markets when determining fair value. For investments categorized as Level 3, including the Westmoreland Loan, PVNGS lessor notes, and certain items in other investments, fair values were determined by discounted cash flow models that take into consideration discount rates that are observable for similar types of assets and liabilities. Management of the Company independently verifies the information provided by pricing services.

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Items recorded at fair value on the Condensed Consolidated Balance Sheets are presented below by level of the fair value hierarchy. There were no Level 3 fair value measurements at June 30, 2016 and December 31, 2015 for items recorded at fair value.

		GAAP Fair Value Hierarchy	
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
June 30, 2016	(In thousands)		
PNMR and PNM			
Available-for-sale securities			
Cash and cash equivalents	$3,535	$3,535	$ —
Equity securities:			
Domestic value	61,672	61,672	—
Domestic growth	45,484	45,484	—
International and other	26,413	26,413	—
Fixed income securities:			
U.S. Government	38,263	36,979	1,284
Municipals	56,078	—	56,078
Corporate and other	33,224	6,852	26,372
	$264,669	$180,935	$ 83,734
Commodity derivative assets	$5,385	$—	$ 5,385
Commodity derivative liabilities	(6,334)	—	(6,334)
Net	$(949)	$—	$ (949)
December 31, 2015			
PNMR and PNM			
Available-for-sale securities			
Cash and cash equivalents	$10,700	$10,700	$ —
Equity securities:			
Domestic value	44,505	44,505	—
Domestic growth	61,078	61,078	—
International and other	27,961	27,961	—
Fixed income securities:			
U.S. Government	27,880	26,608	1,272
Municipals	58,576	—	58,576

Corporate and other	28,342	6,500	21,842
	$259,042	$177,352	$ 81,690
Commodity derivative assets	$6,435	$—	$ 6,435
Commodity derivative liabilities	(1,859)	—	(1,859)
Net	$4,576	$—	$ 4,576

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The carrying amounts and fair values of investments in the Westmoreland Loan, PVNGS lessor notes, other investments, and long-term debt, which are not recorded at fair value on the Condensed Consolidated Balance Sheets are presented below:

			GAAP Fair Value Hierarchy		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
June 30, 2016	(In thousands)				
PNMR					
Long-term debt	$2,324,024	$2,546,710	$—	$2,546,710	$—
Westmoreland Loan	$123,995	$134,889	$—	$—	$134,889
Other investments	$440	$1,028	$440	$—	$588
PNM					
Long-term debt	$1,631,574	$1,787,656	$—	$1,787,656	$—
Other investments	$202	$202	$202	$—	$—
TNMP					
Long-term debt	$420,763	$485,210	$—	$485,210	$—
Other investments	$238	$238	$238	$—	$—
December 31, 2015					
PNMR					
Long-term debt	$2,091,948	$2,264,869	$—	$2,264,869	$—
Investment in PVNGS lessor notes	$8,587	$8,947	$—	$—	$8,947
Other investments	$604	$1,269	$604	$—	$665
PNM					
Long-term debt	$1,580,677	$1,703,209	$—	$1,703,209	$—
Investment in PVNGS lessor notes	$8,587	$8,947	$—	$—	$8,947
Other investments	$366	$366	$366	$—	$—
TNMP					
Long-term debt	$361,411	$411,661	$—	$411,661	$—
Other investments	$238	$238	$238	$—	$—

(8) Stock-Based Compensation

PNMR has various stock-based compensation programs, including stock options, restricted stock, and performance shares granted under the Performance Equity Plan (“PEP”). Although certain PNM and TNMP employees participate in the PNMR plans, PNM and TNMP do not have separate employee stock-based compensation plans. In 2011, the Company changed its approach to awarding stock-based compensation. As a result, no stock options have been granted since 2010 and awards of restricted stock have increased. Certain restricted stock awards are subject to achieving performance or market targets. Other awards of restricted stock are only subject to time vesting requirements. Additional information concerning stock-based compensation under the PEP is contained in Note 13 of the Notes to Consolidated Financial Statements in the 2015 Annual Reports on Form 10-K.

Restricted stock under the PEP refers to awards of stock subject to vesting, performance, or market conditions rather than to shares with contractual post-vesting restrictions. Generally, the awards vest ratably over three years from the grant date of the award. However, awards with performance or market conditions vest upon satisfaction of those conditions. In addition, plan provisions provide that upon retirement, participants become 100% vested in certain stock awards.

The stock-based compensation expense related to restricted stock awards without performance or market conditions for awards to participants that are retirement eligible on the grant date is recognized immediately at the grant date and is not amortized. Compensation expense for other such awards is amortized to compensation expense over the shorter of the requisite vesting period, which is generally three years, or the period until the participant becomes retirement eligible. Compensation expense for performance-based shares is recognized ratably over the performance period and is adjusted periodically to reflect the level of

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achievement expected to be attained. Compensation expense related to market-based shares is recognized ratably over the measurement period, regardless of the actual level of achievement, provided the employees meet their service requirements. At June 30, 2016 and December 31, 2015, PNMR had unrecognized expense related to stock awards of $7.2 million and $5.7 million, which are expected to be recognized over an average of 1.7 and 1.4 years.

The grant date fair value for restricted stock and stock awards with Company internal performance targets is determined based on the market price of PNMR common stock on the date of the agreements reduced by the present value of future dividends, which will not be received prior to vesting, applied to the total number of shares that are anticipated to vest, although the number of performance shares that ultimately vest cannot be determined until after the performance periods end. The grant date fair value of stock awards with market targets is determined using Monte Carlo simulation models, which provide grant date fair values that include an expectation of the number of shares to vest at the end of the measurement period.

The following table summarizes the weighted-average assumptions used to determine the awards grant date fair value:

	Six Months Ended June 30,	
Restricted Shares and Performance Based Shares	2016	2015
Expected quarterly dividends per share	$0.22	$0.20
Risk-free interest rate	0.94 %	0.92 %
Market-Based Shares		
Dividend yield	2.74 %	2.87 %
Expected volatility	20.44 %	18.73 %
Risk-free interest rate	0.97 %	1.00 %

The following table summarizes activity in restricted stock awards, including performance-based and market-based shares, and stock options, for the six months ended June 30, 2016:

	Restricted Stock		Stock Options	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Exercise Price
Outstanding at December 31, 2015	245,094	$ 24.81	569,342	$ 19.35
Granted	190,276	$ 26.49	—	$ —
Exercised	(203,423)	$ 23.44	(236,635)	$ 27.76